



FRAUD FACTS

Air Force Deputy General Counsel Contractor Responsibility

Volume I, Issue 3 • September 2004

ABOUT FRAUD FACTS

Fraud Facts is published by the Air Force Deputy General Counsel (Contractor Responsibility) to present current information about selected fraud, suspension and debarment actions, and issues of interest. Many different agencies contribute to the investigation, prosecution, and completion of a case, including, but not limited to, the Air Force Office of Special Investigations, the Defense Criminal Investigative Service, and the Air Force JAG Corps. We thank you for your continued support and assistance in protecting the government's contracting interests.

CONTENTS

Suspension & Debarment	1
Recent Debarments	2
Nutshell Summary	3
Ethics Corner	3
Guilty Plea	4
Sentencing	4
Web Resources	5
DOD News	5
Articles & Speeches	5
Aviation History	6
Legislative Activity	7
Contact Information	8

FRAUD FACTS STAFF

Sarah Moffett	Editor
Ashley Hurt	Writer
Sean Cavote	Writer
Kathy Tennessee	Writer

ADELPHIA EXECUTIVES & SUBSIDIARIES SUSPENDED

SUSPENDED FOR CONSPIRACY AND SECURITIES, WIRE, AND BANK FRAUD

Adelphia Communication Corporation (Adelphia) was a Delaware corporation that operated cable television systems across the United States. Adelphia had several franchise contracts to operate cable networks at various Air Force installations. On July 23, 2002, a twenty-three count Indictment was filed in the United States District Court for the Southern District of New York against the founder and chief executive officer of Adelphia, John J. Rigas, his sons, Timothy J. Rigas and Michael J. Rigas, and two other Adelphia executives, James R. Brown and Michael C. Mulcahey. The individuals were charged with conspiracy, securities fraud, wire fraud, and bank fraud in connection with their participation in a scheme to defraud investors, creditors, and the public concerning the financial condition and operating performance of Adelphia. The Securities and Exchange Commission followed on July 24, 2002, by filing charges against Adelphia, John J. Rigas, Timothy J. Rigas, Michael J. Rigas, James R. Brown, and Michael C. Mulcahey, alleging among other things, the fraudulent exclusion of billions of dollars in debt from the company's balance sheet, falsified earnings, and rampant self-dealing. John J. Rigas and Timothy J. Rigas were found guilty of various criminal offenses in July 2004. James R. Brown pled guilty, and Michael C. Mulcahey was found not guilty.

On June 2, 2004, the Air Force suspended several individuals and entities that continue to be controlled by the Rigas family, pursuant to FAR 9-407-2(b) & (c), which permits the Air Force to suspend a contractor for any cause that is so serious or compelling as to adversely affect the contractor's present responsibility. The Air Force suspensions included John J. Rigas, his wife Doris Rigas, his sons Timothy J. Rigas, Michael J. Rigas, James P. Rigas, his daughter Ellen Rigas Venetis, and his son-in-law Peter Venetis. Adelphia has been reorganized, is no longer controlled by the Rigas family, and is not suspended.

FAILURE TO PROVIDE CONFORMING PRODUCTS

TINKER AIR FORCE BASE, OKLAHOMA

Allied Precision Products, Inc. is a Florida company that manufactured fasteners and small machine parts for the Department of Defense, including the Air Force. Allied manufactured sleeve bushings

The views and opinions of the authors expressed herein do not necessarily state or reflect the official policy or position of the Department of the Air Force, Department of Defense, or United States Government. Distribution is limited to agencies of the United States Department of Defense. Please refer all requests to receive Fraud Facts to Sarah Moffett at Sarah.Moffett@pentagon.af.mil.

that were shipped to Tinker Air Force Base, Oklahoma for use on Air Force platforms for the C-135, C-141, C-130, and A-10 aircraft.

During Government inspections during 2001 and 2002, the Air Force rejected numerous items manufactured by Allied due to non-conforming materials and product defects. Testing revealed that out of 1000 sleeve bushings shipped to Tinker AFB, 624 were non-conforming.

In 2001, three corrective action requests (CAR) were issued for non-conforming products and defects on at least five Allied contracts. In early 2002, twenty-three CARs were issued for non-conformances and material defects. Allied did not sufficiently remedy its problems, and additional lots were rejected during subsequent inspections.

On March 15, 2002, a Level III CAR was issued. Level III CARs involve escalation of serious contractual noncompliances to top contractor management, and may incorporate contractual remedies such as reductions of progress payments, cost disallowances, cure notices, show cause letters (manual or electronic), or business management systems disapprovals. Once again, Allied did not adequately address the CAR or take action to correct the product defects.

On September 16, 2002, a Level IV CAR was issued based on Allied's inability to take corrective action for parts identified in the Level III CAR. Level IV CARs involve contractual remedies such as suspension of progress payments or product acceptance activities, termination for default, and suspension or debarment, in accordance with FAR/DFARS policies and procedures.

On September 29, 2003, the Air Force proposed the debarments of Allied and several of its employees including its president, Ben Skinner, its secretary, Vivian Grant, its vice president, J.B. Skinner, and its quality manager, Steve Brewster. All were debarred by the Air Force on September 1, 2004, pursuant to FAR 9.406-2(c), which permits the Air Force to debar a contractor for any cause that is so serious or compelling that it adversely affects the contractor's present responsibility. A special thanks to Jimmy Culbreth and Latonya Jones-Issiac of AFOSI for their tireless work investigating this case.

RECENT DEBARMENTS

Ahmed Abu Khamis
Ahmed Krassi
Airborne Product Support, Ltd.
Al-Hadhara Scientific Trading Establishment
Allied Precision Products, Inc.
Al-Mazoon Group
AM-AR Riyadh
B&H Enterprises, Inc.
Ben Skinner
BKM Development
Callie Adams Jones
Capital Consulting Group, L.L.C.
Charles Johnson
Colonel Mohammed Al-Beeshi
Dan Gregory, Jr.
Delta Air Parts Company
Dr. Kenneth Rotondo
Eagles Cleaning & Food Service Company
Glenn Logan
J. Greenwood Limited
J.B. Skinner
James Johnson
Jerry E. Greenwood
Johnson & Johnson Distributing
Keith Shaw
Larry Brockwell
Laura Fahey
Laura Shepherd
Linda L. Bray
Lisa Schmidt
Lucius F. Howell
Mark Safford Yomtob Holiday
Raymond R. Patterson
Rod Haskins
Shirley Marple
Sky Controls, Incorporated
Steve Brewster
Suanna Knoblach
Urai Egawarin
Vivian Grant
Waverly Debraux
William J. Bray III
William W. Manning, Jr.

CONTRIBUTING WRITERS

John W. Polk, SAF/GCR
Kerri Cox, SAF/GCA
Lt. Col. Robert C. Bartlemay, AFMCLO
A special thanks to this issue's contributing writers.

INTERNATIONAL BRIBERY, EXTORTION & FRAUD 27 Debarred in International Conspiracy

AM-AR International was a Department of Defense (DoD) subcontractor that sold parts at grossly inflated



prices to the Royal Saudi Air Force under the Foreign Military Sales (FMS) program between 1995 and 1997. The FMS program is a DoD effort to provide friendly foreign nations access to military material from U.S. suppliers. In order to conceal the grossly inflated prices of the parts, AM-AR formed several bogus distributorships to create the illusion of adequate competition. AM-AR also paid kickbacks to military equipment contractors and procurement personnel in violation of the Anti-Kickback Act in order to secure their illegal cooperation in the scheme. The AM-AR conspiracy spanned the globe, extending from the U.S. into Canada, England, Saudi Arabia, and Thailand.

On January 18, 2000, the Air Force suspended thirty-one individuals and entities associated with the AM-AR conspiracy. On April 14, 2004, the Air Force proposed for debarment ninety-six individuals and entities associated with the AM-AR conspiracy.

UPDATE - To date, the Air Force has debarred twenty-seven individuals and entities involved in the AM-AR conspiracy. The debarments were imposed pursuant to FAR 9.406-2(c), which permits the Air Force to debar a contractor for any cause that is so serious or compelling that it adversely affects the contractor's present responsibility.

Contributing Writer Lt. Col. Robert C. Bartlemay

SUSPENSION & DEBARMENT IN A NUTSHELL

Suspension and debarment protect the government from doing business with contractors that are not "responsible." Each Executive Branch department and agency has delegated to a "suspending" and "debaring" official (S & D official) the authority to suspend and debar non-responsible contractors. Suspension or debarment has the immediate effect of making the contractor ineligible for new contracts or for federal assistance programs with all Executive Branch departments and agencies. That ineligibility is effectuated when the S & D official causes the contractor's name to be placed on the "[GSA list](http://afnet.safgc.hq.af.mil/sd_shaw_nutshell.htm)," maintained on the Internet. Contracting officers are required to review the GSA list prior to the award of new contracts.

This is an excerpt of "Suspension and Debarment in a Nutshell." To view the full article, click on the link: http://afnet.safgc.hq.af.mil/sd_shaw_nutshell.htm

ETHICS CORNER

Financial Disclosure Form 450

By Kerri Cox, SAF/GCA

Once again, it is Financial Disclosure Form 450 season! Beginning October 1, certain active duty, reserve personnel, and civilian employees whose official duties may impact a non-Federal government entity's financial interests will be asked to file a Form 450. Included in this group are: commanders of Air Force installations, certain special government employees and detailed IPAs. Employees classified at GS-15 and below or military members 0-6 and below who hold certain contracting positions, who administer grants or licenses, or whose activities involve a "direct and substantial economic impact" on the interests of non-Federal entities must file a Form 450. Commanders and supervisors are responsible for determining whether other employees must file. In addition, reservists holding such a position are required to file on the 61st day they serve.

A common question is whether employees authorized to use government purchasing cards to make small purchases qualify as contracting officers who must file a Form 450. Air Force employees who are not employed in contracting or procurement, but who have decision-making responsibilities for expenditures of less than \$2,500 per purchase and less than \$20,000 per year are not required to file unless their supervisors determine the employees should file the form for some other reason.

Once the Form 450 is completed, it will be reviewed by the employee's supervisor and ethics counselor. If a real or apparent conflict of interest is identified, remedial action may be required. The supervisor and the ethics counselor will work with the employee to resolve any conflicts of interest.

The Form 450 helps to ensure public confidence in the integrity of the Federal Government by highlighting for employees and supervisors possible conflicts of interest between personal financial interests and official duties. The Form 450 is a confidential form and is reviewed only by the employee's supervisor and ethics counselor on a "need to know" basis.

More information on accessing and completing the Form 450 will be provided beginning October 1. Employees with questions about who should file the Form 450 or the form itself should contact their local ethics counselor



GUILTY PLEA

Christopher J. Evans, owner of Evans Carpet Cleaning, pled guilty in Federal District Court in Dayton, Ohio to credit card fraud. Evans had a blanket purchase agreement to provide carpet-cleaning services at Wright-Patterson AFB. He cleaned carpets for several organizations on base and was paid with each organization's IMPAC card. Armed with all of the credit card account information, Evans billed three accounts for services not provided totaling approximately \$50,000. He also billed a new carpet-cleaning machine worth approximately \$7,000.

The Air Force denied the charge for the carpet-cleaning machine, and the seller contacted the police suspecting fraud. The police contacted AFOSI who opened an investigation. The investigation then revealed that Evans made approximately 20 unauthorized charges to the three IMPAC card accounts. The IMPAC cardholders challenged all but one of the charges and had their accounts credited for the false charges. As a result the Air Force lost only \$105. Evans was paid in advance for one particularly large job and was unable to do the work satisfactorily. He was ordered off the job, and the IMPAC cardholder was able to get over \$18,000 of a \$25,000 charge taken off the card.

As part of his plea agreement, Evans agreed to pay restitution to the Air Force of \$105 and to the banks approximately \$57,000 in unauthorized charges and \$18,000 for the unearned portion of the advance payment he received. Evans faces a maximum sentence of five years confinement, a \$250,000 fine, three years supervised release, and a \$100 special assessment for victims of crime.

There are a couple of lessons learned from this case. First is that the IMPAC cardholders did an excellent job of checking the charges on their bills and disputing unauthorized charges. However, each account had multiple charges over several months. The IMPAC cardholders did not report this problem to AFOSI. The cardholders also could have canceled the cards and had new ones issued under a different account number to avoid future charges. Overall, the case demonstrates that the careful checking of the IMPAC card bills may find unauthorized charges and prevent loss to the Air Force.

AFOSI, Det. 101, at Wright-Patterson AFB did a commendable job on the investigation. The case agent was Special Agent David Mills. Lt. Col. Robert C. Bartlemay, who serves as a Special Assistant U.S.

Attorney in the Southern District of Ohio, prosecuted the case.

Contributing Writer Lt. Col. Robert C. Bartlemay



*Looking over the wing of a KC-135 Stratotanker at an F-16.
(Photo by Thomas J. Pitsor, AFFTC)*

SENTENCING

Jerry E. Greenwood was sentenced in the United States District Court for the Southern District of Ohio to two years probation and ordered to pay \$12,000 in restitution to the U.S. Air Force and a \$1,000 fine for having a financial interest in a company awarded a government contract while he was employed by the Air Force. On January 30, 2004, Greenwood pled guilty to a one-count Information for violating 18 U.S.C. § 208(a), a statute prohibiting a government employee from personally and substantially participating in a contracting action affecting a contractor with the government. Greenwood was the initial drafter of some of the contracting documents for a sole source contract that was eventually awarded to his company.

On August 18, 2004, the Air Force debarred Jerry Greenwood and his company, J. Greenwood Limited for two years. A special thanks to Special Agent Lance Novak of AFOSI, who investigated the case, and to Lt. Col. Robert Bartlemay, Deputy Director, Ethics and Fraud Remedies, Air Force Material Command Law Office, who prosecuted the case as a Special Assistant U.S. Assistant.



WEB RESOURCES

SAF/GCR Websites:

SAF/GCR

<http://afnet.safgc.hq.af.mil/safgcr.htm>

HAFDASH GCR

<https://intranet.hq.af.mil/webfiles/safgc/>

FLITE GCR

<https://aflsa.jag.af.mil/>

AFNET

<http://afnet.safgc.hq.af.mil/>

Additional Websites:

Central Contractor Registration

<https://www.bpn.gov/CCR/scripts/index.html>

Defense Federal Acquisition Regulations

<http://www.acq.osd.mil/dpap/dfars/index.htm>

Excluded Parties List System

<http://www.epls.gov/>

Federal Acquisition Regulations

<http://www.arnet.gov/far/>

Thomas (U.S. Congress Online)

<http://thomas.loc.gov>

**Multiple other useful links may be found on the SAF/GCR website via FLITE.*

SMALL BUSINESSES RECEIVE 22% OF PRIME CONTRACTS FROM DOD IN FY 2003

DoD awarded \$42.0 billion to small businesses in FY 2003. This gave small businesses 22.4% of the \$187.5 billion awarded by DoD last year. "Procurement from Small and Other Business Firms," a DoD report, is available at:

<http://www.dior.whs.mil/peidhome/procstat/procstat.htm>
See Federal Contracts, Vol. 82, No. 5, pg. 127 (2004).

ARTICLES & SPEECHES

ARTICLES

➤ Suspension & Debarment in a Nutshell

http://afnet.safgc.hq.af.mil/sd_shaw_nutshell.htm

➤ Suspension & Debarment: Emerging Issues in Law and Policy

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=509004

➤ Current Debarment Rules Work, Agencies Say

<http://federaltimes.com/index.php?S=2919149>

UPCOMING SPEECHES

➤ October 5, 2004: Steve Shaw is making a presentation on ethics to The Boeing Company's ethics officers in Seattle, Washington.

RECENT SPEECHES & ARTICLES

➤ August 17-20, 2004: Richard Pelletier provided instruction on suspension and debarment issues for the Air Force JAG School's Air Force Systems and Logistics Contracting Course.

➤ June 8-10, 2004: Steve Shaw spoke at the Transparency International UK Conference in Arundel, Sussex, England on corruption in the international defense industry.

➤ June 4, 2004: Steve Shaw led a panel of government officials at the Defense Industry Initiatives' Best Practices Forum in Washington, DC.

➤ June 3, 2004: Richard Pelletier spoke at the Army JAG School Contract and Fiscal Law Department in Charlottesville, VA.

OTHER RELATED NEWS

DOD CRACKING DOWN ON COMPETITION WAIVERS

In response to a Government Accounting Office (GAO) report, DoD is tightening up its use of competition requirement waivers generally dispensed under multiple award contracts and federal supply schedules. The GAO report found DoD waived competition requirements in approximately half of a random sample of multiple award contracts and schedule task orders it sampled. The cumulative value of those waivers totaled \$53.3 million. "The frequent use of waivers to competition may be hindering DoD's ability to obtain innovative solutions to problems, and the best value for the taxpayer," said the GAO report, which also noted a strong DoD preference for incumbents in new continuing contract work.

See Federal Contracts, Vol. 82, No. 7, pg. 175 (2004).



AVIATION HISTORY

The End of the Red Baron

John W. Polk, SAF/GCR

"On 21 April 1918, Manfred von Richthofen was shot down from the skies over Vaux sur Somme, France. His people called him *der rote Kampfflieger*, the French called him *le petit rouge*, and he is known in the English-speaking world as the *Red Baron*. In a time of wooden and fabric aircraft, when twenty air victories insured a pilot legendary status and the coveted *Pour Le Merite* (the famous "Blue Max"), Richthofen had eighty victories and is regarded to this day as the ace of aces."



Although best known for his red Fokker tri-plane, Richthofen scored most of his victories flying biplanes which were only partly painted red. He flew the distinctive red Fokker tri-plane only during the last few months of his career. The Fokker Dr.I Dreidecker (tri-plane) had a maximum speed of 103 mph, a maximum range of 125 miles, and a maximum altitude of 14,000 feet.

On 21 April 1918, Richthofen attacked a British plane piloted by Wilfred May. May was a novice pilot, and when he saw the dreaded Red Baron on his tail he fled toward British territory. Even though Richthofen preached that a pilot should never obstinately stay with an opponent whom he has been unable to shoot down, on this occasion he ignored his own advice and flew far deeper into enemy territory and far lower than his own doctrine permitted. May later said that it was only his erratic, untrained piloting that saved him. Richthofen followed the erratic path of the novice May, allowing himself to be drawn low to the ground and deep behind enemy lines. During the chase, a Canadian flyer named Arthur "Roy" Brown made one pass at Richthofen from behind, firing a single machinegun burst and then breaking off contact. However, Richthofen was seemingly unhurt and continued flying for a few more

minutes until his aircraft veered to the ground, crash landing in a field.

For many years, Roy Brown was credited with killing the Red Baron, although Brown himself never took credit for the victory. Recently, a thorough analysis of the case points to a different conclusion. The evidence shows that Richthofen was killed by a bullet coming from below and passing diagonally upward through his body. Given the angle and direction of Brown's attack, Brown could not have fired the fatal shot. Rather, the evidence convincingly shows that Richthofen was killed by an Australian machine-gunner firing from the ground at a range of approximately 600 yards. The great Red Baron was killed not by a fellow gladiator of the sky, but by a lowly infantryman.

After the Red Baron's death, his brother, Lothar, took command of the squadron, until he too was shot down in August 1918. Manfred's eventual successor was Hermann Goering (later head of the Luftwaffe and a particularly infamous Nazi), who chose to paint his aircraft completely white, ending the reign of blood-red German fighters.



Red Baron Replica Plane

This article is based on information published on the Internet. See www.briggsenterprises.com/bluemax/ for further information on the Red Baron.

FRAUD REMEDIES BULLETINS & UPDATES

Fraud Remedies Bulletins and Fraud Remedies Updates (formerly called Anti-Fraud Bulletins & Updates) are insightful tools addressing pertinent issues facing investigators and attorneys today, and are published by the Office of Fraud Remedies, SAF/GCR. For questions, please call John W. Polk, Director, Office of Fraud Remedies, SAF/GCR, DSN 425.0159; 703.588.0159. Previous Fraud Remedies Bulletins & Updates are available on SAF/GCR's website, which can be accessed as follows: from the FLITE homepage, go to home, click on AF GC, then click on "Contractor Responsibility," and finally click on "Procurement Fraud."



LEGISLATIVE ACTIVITY

Bill Num.	Name/Description	Summary	Status
H.R. 2767	Contractors Accountability Act of 2003	Sets out to improve Federal agency oversight of contracts and assistance, and to strengthen accountability of the government wide suspension and debarment system.	Referred to House Committee on Government Reform
H.R. 1348	Construction Quality Assurance Act	Prohibits contractors from “bid shopping” and provides penalty of suspension and/or debarment.	Referred to House Committee on Government Reform
H.R. 746	Responsibility in Federal Contracts Act	Prohibits the Federal government from contracting with parties that have failed to certify the most recent periodic financial report required under Sarbanes-Oxley Act of 2002 that is due before the contract award date.	Referred to Subcommittee on Capital Markets
H.R. 1218	A bill to require contractors with the Federal Government to possess a satisfactory record of integrity and business ethics	Amends Federal defense contract law and the Federal Property and Administrative Services Act of 1949 to prohibit a contractor from being awarded a defense or Federal contract, unless the Federal contracting officer determines that such contractor has a satisfactory record of integrity and business ethics, including compliance with all applicable laws. Outlines information to be considered by a contracting officer in making such determination, with an emphasis on any violations that have been adjudicated during the prior three-year period, as well as certain convictions of and civil judgments rendered against such contractor.	Referred to Committee on Government Reform
S. 1072	Amendment to S. 1072	Requires the Secretary of Transportation to suspend or propose for debarment a contractor that commits a civil or criminal offense involving fraud with respect to a project receiving Federal highway or transit funds.	Referred to conference by the Speaker
S. 2023	A bill to limit Department of Defense (DoD) contracting with firms under investigation by the DoD Inspector General	Prohibits any official of the DoD from entering into a contract with, or otherwise procuring any property or services from, a person under investigation by the DoD Inspector General, unless the selection of such person for such contract or procurement is made with full and open competition.	Referred to Armed Services Committee



SECRETARY OF THE AIR FORCE
DEPUTY GENERAL COUNSEL FOR CONTRACTOR RESPONSIBILITY

4040 N. Fairfax Drive • Suite 204 • Arlington, VA 22203
Commercial: 703.588.0090 • Fax: 703.588.1045 • DSN: 425.0090 • DSN Fax: 425.1045

Steven A. Shaw	Deputy General Counsel	Steven.Shaw@pentagon.af.mil
Richard A. Pelletier	Assistant Deputy General Counsel	Richard.Pelletier@pentagon.af.mil
John W. Polk	Director, Fraud Remedies	John.Polk@pentagon.af.mil
Kathy Tennessee	Paralegal	Kathy.Tennessee@pentagon.af.mil
Ashley Hurt	Legal Intern	Ashley.Hurt@pentagon.af.mil
Sarah Moffett	Legal Intern	Sarah.Moffett@pentagon.af.mil
Sean Cavote	Legal Intern	Sean.Cavote@pentagon.af.mil
Lauren Baker	Legal Intern	Baker.Lauren@pentagon.af.mil
Stephanie Barnes	Administrative Assistant	Stephanie.Barnes@pentagon.af.mil

